

Report  
of the  
Examination of  
NGL American Life Insurance Company  
Madison, Wisconsin  
As of December 31, 2000

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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August 10, 2001

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Commissioner of Insurance  
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Commissioners:

In accordance with your instructions, a compliance examination has been made of  
the affairs and financial condition of:

NGL AMERICAN LIFE INSURANCE COMPANY  
Madison, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of NGL American Life Insurance Company (NGLA, or "the company") was a limited examination upon redomestication conducted in 1999. The current examination covered the period since redomestication to December 31, 2000, and included a review of such 2001 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

**Independent Actuary's Review**

Independent actuaries were engaged under a contract with the Office of the Commissioner of Insurance. They reviewed the adequacy of aggregate life and accident and health reserves, dividends to policyholders, cash flow testing, deferred and uncollected premiums for life insurance, due and uncollected premiums for health insurance, and in force testing. The results of their work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuaries' conclusion.

## **II. HISTORY AND PLAN OF OPERATION**

The company was originally organized in 1982 as Guarantee American Life Insurance Company (GALIC) pursuant to the laws of Nebraska, and commenced business September 7, 1982. The company was organized as a wholly owned subsidiary of Guarantee Life Insurance Company (GLIC) which was also domiciled in Nebraska. The company entered into a co-insurance agreement with its parent in 1992 to assume 50% of certain supplementary contracts with life contingencies. For the period 1992 through 1996, the company transacted no other insurance operations and had no life insurance in force.

The name of the company was changed to NGL American Life Insurance Company on December 12, 1996, in anticipation of the acquisition of the company by National Guardian Life Insurance Company (NGLIC), a Wisconsin domiciled insurer. The sale of the company to NGLIC occurred effective January 1, 1997, and the company redomiciled to Wisconsin effective January 10, 1997.

Effective January 1, 1997, the company's co-insurance treaty with GLIC was terminated, and \$1.6 million of related reserve liabilities were transferred back to GLIC along with an equal amount of assets. After the termination of the co-insurance treaty, the company had no life insurance in force, statutory assets of \$4.4 million, liabilities of \$345,000, and statutory surplus of \$4.1 million.

Effective January 1, 1997 the company assumed a closed block of supplemental contracts with life contingencies on a 50% co-insurance basis from NGLIC. The transaction resulted in the assumption by the company of \$1.1 million of reserves and related assets.

Allnation Life Insurance Company (ALIC) was merged into the company as of March 31, 2000, with NGLA remaining as the surviving corporation following the merger. NGLA's parent previously acquired ALIC from Blue Cross/Blue Shield of Delaware. ALIC was a nine-state insurer that had approximately 4,000 worksite individual ordinary, term, and universal life policies and \$1 million in annual premium revenue. ALIC had \$10.4 million of assets and \$3.7 million of capital and surplus.

NGLA is licensed the District of Columbia and in the following 30 states:

Alaska	Kansas	North Dakota
Arizona	Louisiana	Ohio
California	Maryland	Oklahoma
Colorado	Michigan	Oregon
Delaware	Minnesota	Pennsylvania
Hawaii	Missouri	South Dakota
Idaho	Montana	Texas
Illinois	Nebraska	Utah
Indiana	Nevada	Virginia
Iowa	New Mexico	Wisconsin

During the year 2000 the company wrote direct premium in the following states:

Michigan	\$ 6,457,515	50.9%
Wisconsin	3,637,820	28.7%
Minnesota	1,102,022	8.7%
Delaware	532,295	4.2%
Pennsylvania	416,053	3.3%
All Other States	<u>532,810</u>	<u>4.2%</u>
Total	<u>\$12,678,515</u>	<u>100.0%</u>

The major products marketed by the company are preneed insurance, including both life insurance and annuity contracts, and final expense insurance. The company's preneed products are primarily single premium, increasing face amount insurance policies and annuities that provide funding for funeral costs. Preneed and final expense products are distributed through a network of regional sales representatives and third party marketing organizations. The policies are sold through independent funeral homes and brokers to individuals who are prearranging and prefunding their funerals. The company anticipates expansion of its operations into additional states in the intermediate term, with marketing services provided through third party marketers and funeral service organizations.

The following chart is a summary of the net insurance premiums written by the company in 2000. The growth of the company is discussed in the Financial Data section of this report.

<b>Line of Business</b>	<b>Direct Premium</b>	<b>Reinsurance Assumed</b>	<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Ordinary life	\$10,866,656	\$ 0	\$ 9,000	\$10,857,656
Term life	548,937	281	397,716	151,502
Universal life and interest sensitive life	444,470	0	148,618	295,852
Annuities	750,557	0	0	750,557
Accident and health	<u>1,360</u>	<u>0</u>	<u>290</u>	<u>1,070</u>
Total All Lines	<u>\$12,611,980</u>	<u>\$281</u>	<u>\$555,624</u>	<u>\$12,056,637</u>



### III. MANAGEMENT AND CONTROL

#### Board of Directors

The company's board of directors consists of three members. Each director is elected annually to serve a one-year term. NGLA officers are elected at the board of directors annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. Each director of NGLA is a senior executive of NGLIC, and is compensated by NGLIC for services performed as a NGLA director and executive employee. NGLA does not pay any form of additional compensation to its directors.

Currently the following board members comprise the NGLA board of directors:

Name and Residence	Principal Occupation	Term Expires
Spencer L. Francis Windsor, WI	Vice President and Director of Finance National Guardian Life Insurance Company	2002
John D. Larson Madison, WI	President & Chief Executive Officer National Guardian Life Insurance Company	2002
Robert A. Mucci Madison, WI	Vice President and Treasurer National Guardian Life Insurance Company	2002

#### Officers of the Company

Each executive officer of the company is elected at the annual meeting of the board of directors. Each officer serves a one-year term of office. The officers serving at the time of this examination are as follows:

Name	Office	2000 Compensation
John D. Larson	President & Chief Executive Officer	*
Spencer L. Francis	Vice President & Treasurer	*
Robert A. Mucci	Vice President & Investment Officer	*
Timothy J. Nicholson	Vice President & Director of Marketing	*
Edwin L. Patschke	Vice President & Director of Preneed Operations	*
Mark L. Solverud	Vice President & Chief Actuary	*

- \* Each officer of NGLA is an employee of NGLIC, and serves as a senior executive within the NGLIC Insurance Group in the course of his employment. Each officer of NGLA is compensated for his services by NGLIC, and no direct compensation is paid by NGLA to its officers. Management Services Agreements between NGLIC and its affiliates provide that certain affiliates shall pay to NGLIC a monthly executive management fee of agreed upon amount, for duties performed by NGLIC officers that are directly related to the business of the respective affiliates. A Management Services Agreement between NGLIC and NGLA provides that NGLA shall pay to NGLIC a monthly executive management fee of \$4,888, for duties performed by NGLIC officers that are directly related to the business of NGLA.

**Committees of the Board**

The company's bylaws allow for the formation of one or more committees by the board of directors. At the time of the current examination the board of directors had not established any committees of the board.

#### **IV. AFFILIATED COMPANIES**

NGL American Life Insurance Company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of NGLA follows the organizational chart.

##### **Organizational Chart As of December 31, 2000**

National Guardian Life Insurance Company  
NGL American Life Insurance Company  
Settlers Life Insurance Company  
Settlers Investment Co., LLC (50%)  
Kentucky Home Life Insurance Company  
NGL Holdings, Inc.  
NGL Financial Services, Inc.  
Southeastern Financial Services, Inc. (1)  
Kentucky Home Trust Co.  
NGL Investment Services, Inc.  
Midwest Realty and Investment Corporation (22.5%)  
Edgewater Corporation

(1) The name was changed to NGL Investment Management, Inc. (NGL-IM) effective March 23, 2001.

##### **National Guardian Life Insurance Company (NGLIC)**

National Guardian Life Insurance Company is a Wisconsin domiciled insurer originally incorporated in 1909 under the name the Guardian Life Insurance Company. The present name was adopted in 1920. NGLIC owns and operates various insurance and non-insurance businesses through the NGLIC Insurance Group. NGLIC is currently licensed in 41 states and is a direct writer of individual and group insurance products, including ordinary and interest-sensitive whole life, term insurance, single and flexible premium deferred annuities, immediate annuities, disability income, and group life and annuities. As of December 31, 2000, the audited statutory financial statement of NGLIC reported total admitted assets of \$793,628,983, total liabilities of \$691,192,125, and surplus of \$102,436,862. Operations for 2000 produced net income of \$4,207,883.

##### **Settlers Life Insurance Company (SLIC)**

Settlers Life Insurance Company is a Virginia domiciled life insurance company that was initially organized October 31, 1984. SLIC was formerly owned by The Settlers Companies, Inc., and was placed into receivership May 14, 1999 due to the insolvency of a reinsurer with whom SLIC had entered into a coinsurance treaty. Ownership of SLIC was purchased by

NGLIC on November 31, 1999, and SLIC was released from receivership on December 15, 1999. SLIC is licensed in 18 states, with the majority of its business concentrated in Virginia, Tennessee, and North Carolina.

As of December 31, 2000, the audited statutory financial statement of SLIC reported total admitted assets of \$217,911,640, total liabilities of \$203,560,320, and capital and surplus of \$14,351,320. Operations for 2000 produced net income of \$4,628,923.

#### **Kentucky Home Life Insurance Company (KHL)**

Kentucky Home Life Insurance Company is a stock life insurer that is wholly owned by NGLIC. KHL is domiciled and solely licensed in the State of Kentucky. Effective November 30, 1998, NGLIC absorbed Kentucky Home Mutual Life Insurance Company (KHM) through merger. In conjunction with the KHM merger, NGLIC established KHL as a stock insurance subsidiary for the purpose of continuing certain operations of the prior KHM and to market NGLIC products in Kentucky. As of December 31, 2000, the audited statutory financial statement of KHL reported total admitted assets of \$3,978,307, total liabilities of \$1,103,573, and capital and surplus of \$2,874,734. Operations for 2000 produced net income of \$90,562.

#### **NGL Holdings, Inc. (NGLH)**

NGL Holdings, Inc. was incorporated May 18, 1989 as a non-operating subsidiary of NGLIC, and is a holding company for special-purpose subsidiary corporations 100% owned by NGLIC. Effective December 31, 1999, NGLIC contributed the 97.8% interest it owned of Kentucky Home Capital Corporation (KHCC) to NGL-H. KHCC was a holding company for special-purpose subsidiary corporations that was acquired by NGLIC with the merger of Kentucky Home Mutual Life Insurance Company into NGLIC in 1998. KHCC was merged into NGL-H effective April 1, 2000. The remaining minority ownership of KHCC was eliminated as part of that merger.

As of December 31, 2000, the audited consolidated financial statement of NGL-H reported total assets of \$9,355,796, total liabilities of \$556,897, and stockholder's equity of \$8,798,899. Operations for 2000 produced net income of \$35,021.

#### **NGL Financial Services, Inc. (NGL-FS)**

NGL-FS. is 100% owned by NGL-H, and acts as a corporate general agency to market life and health insurance products of other insurance companies that NGLIC or its insurance subsidiaries do

not write. The sales agents of NGL-FS are primarily brokers of NGLIC and its other subsidiaries. Products provided through NGL-FS include individual and group health and disability income, Medicare supplement, long term care, and variable products. NGL-FS's net stockholder's equity and results from operations for 2000 are included in the year-end 2000 consolidated financial statement data of NGL-H.

#### **Kentucky Home Trust Company (KHT)**

KHT is 100% owned by NGL-H as a result of the merger of KHCC into NGL-H effective April 1, 2000. The name of KHT is intended be changed to NGL Trust Company effective March 23, 2001 pending approval of the Kentucky Department of Financial Institutions. KHT provides trust services solely in the State of Kentucky. KHT's net stockholder's equity and results from operations for 2000 are included in the year-end 2000 consolidated financial statement data of NGL-H.

#### **Southeastern Financial Services (SFS)**

SFS is 100% owned by NGL-H as a result of the merger of KHCC into NGL-H effective April 1, 2000. The name of SFS was changed to NGL Investment Management, Inc. (NGL-IM) effective March 23, 2001. NGL-IM acts as a registered investment advisor, providing services to KHT. NGL-IM's net stockholder's equity and results from operations for 2000 are included in the year-end 2000 consolidated financial statement data of NGL-H.

#### **NGL Investment Services, Inc. (NGLIS)**

NGL-IS is a wholly owned subsidiary of NGL-H that owns and operates NGLIC real estate properties excluding the NGLIC home office building and other selected investments. NGL-IS's net stockholder's equity and results from operations for 2000 are included in the year-end 2000 consolidated financial statement data of NGL-H.

#### **Midwest Realty & Investment Corporation (MRIC)**

MRIC is 22.5% owned by NGL-IS, and is an investment holding company. MRIC currently owns a hotel and a vacation lodge. As of February 29, 2001 MRIC's audited consolidated financial statement reported assets of \$5,313,228, liabilities of \$2,339,545, and stockholders' equity of \$2,973,683. Operations for the year ended February 29, 2001, produced net comprehensive income of \$240,090.

#### **Affiliated Agreements**

NGLIC provides to the company substantially all of the managerial, administrative, and business services for the company's' day-today operations. NGLIC has established nine

separate management services agreement between NGLIC and one or more of its subsidiaries, including a separate agreement with NGLA. Services provided by NGLIC to NGLA pursuant to the NGLA management services agreement include the following:

- executive management services
- financial services including accounting, actuarial, tax and audit
- information technology services including data processing, system software and hardware, and project work
- policy administration services
- legal and compliance services
- Marketing, agency support, and graphic materials services
- investment management, corporate insurance, and office space

NGLIC service fees charged to the respective affiliates for the costs of NGLIC services are based on time and cost allocation estimates. The estimates of time and cost allocation are amended by NGLIC periodically as needed, to update the allocation model to reflect changes in services provided to one or more of the subsidiaries. Direct costs incurred by NGLIC that are not covered by the services categories specified in the management services agreements are charged to the affiliate on an hourly basis.

NGLIC and its insurance subsidiaries NGLA, SLIC, and KHL file consolidated federal tax returns, and are parties to a tax allocation agreement. Pursuant to that agreement the tax liability or benefit to each respective insurer shall be the amount that the respective insurer would have paid or received if filed on a separate-return basis with the federal and, if applicable, state tax authorities. Consolidated tax liability is allocated in accordance with provisions of Treasury Regulations for the percentage method, with an election to use a percentage of 100%.

#### **Affiliated Companies—Subsequent Events**

##### **Milwaukee Life Insurance Company (MLIC)**

Effective April 1, 2001, NGLIC purchased 100% of the issued and outstanding capital stock of Milwaukee Life Insurance Company (MLIC), a Wisconsin domiciled insurer which was previously a wholly-owned subsidiary of CLARICA Life Insurance Company – US (CLARICA). The purchase transaction closed on June 14, 2001, following approval by the Commissioner of Insurance. NGLIC paid CLARICA \$14,694,644 for the capital stock of MLIC, plus interest from the effective date to the closing date. At the purchase effective date, MLIC

reflected statutory capital and surplus of \$6,897,216. NGLIC intends to merge MLIC into NGLA in the fourth quarter of 2001, subject to regulatory review and approval.

**Direct Insurance Marketing Administrators Corporation (DIMA)**

Effective February 28, 2001, NGL-IS acquired a 49% interest in DIMA for payment of \$697,000 purchase consideration. The remaining 51% of DIMA is owned by a major producer of NGLIC's senior products. DIMA operates as an administrative processor and call center for NGLIC's senior products.

## V. REINSURANCE

The company's reinsurance treaties in force at the time of the examination are summarized below. The company's reinsurance contracts contained proper insolvency provisions.

The actively marketed preneed insurance business written by the company is 100% retained in the company. The company's reinsurance treaties in force are closed and in runoff, and are related to business acquired by the company through NGLIC acquisition and merger transactions. The company is party to seventeen ceded reinsurance contracts, with six contracts with Transamerica Occidental Life Insurance Company (Transamerica) accounting for 89.6% of the reinsurance in force on all of the ceded business. The original reinsured on eight of the treaties, including those with Transamerica, was Allnation Life Insurance Company, which was merged into NGLA on March 31, 2000.

The company has one reinsurance assumption treaty for business ceded by ERC Life Reinsurance Corporation.

The largest reinsurance contract in force is summarized below:

### **Nonaffiliated Ceding Contract**

1. Type: Conditional Automatic First Excess Coinsurance
- Reinsurer: Transamerica Occidental Life Insurance Company
- Scope: Select Term I and III life for insureds with surnames A through Z
- Retention: \$2,500 to \$50,000 depending on the age and rating class of the insured. Minimum amounts: Initial \$2,500; Subsequent \$1,000
- Coverage: Coinsurance Basis 1<sup>st</sup> \$3 million any one life. Excess of this amount is reinsured on yearly renewable term basis for the net amount at risk. Jumbo limit: \$2,500,000  
Binding limit of 19 times the amount retained any one life
- Premium: Proportionate part of premiums received by insured payable on annual basis. Premiums for the first \$3 million of reinsurance on any one life will be appropriate band of annual premiums set forth in the contract on the amount of insurance reinsured, less allowances listed. Allowances range from 100% to 10%.
- Effective date: September 1, 1988. The most recent amendment became effective August 1, 1993.
- Termination: At any time by either party upon 90 days written notice, or by reinsurer upon 30 days written notice in the event that premiums to be paid by the company are delinquent.



Assumption provision: On March 31, 2000 NGLA assumed all of the rights, duties, obligations and liabilities of Allnation Life Insurance Company.

## **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported in the December 31, 2000, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

**NGL American Life Insurance Company**  
**Assets**  
**As of December 31, 2000**

	<b>Ledger Assets</b>	<b>Nonledger Assets</b>	<b>Nonadmitted Assets</b>	<b>Admitted Assets</b>
Bonds	\$ 38,467,690	\$ 0	\$ 0	\$38,467,690
Stocks:				
Preferred stocks	4,462,993			4,462,993
Common stocks	1,021,493	(77,037)		944,456
Mortgage loans on real estate:				
First liens	441,286			441,286
Policy loans	455,253			455,253
Cash	446,874			446,874
Short-term investments	2,259,430			2,259,430
Other invested assets	239,105			239,105
Reinsurance ceded:				
Amounts recoverable from reinsurers		28,289		28,289
Commissions and expense allowances due		8,016		8,016
Electronic data processing equipment	7,651			7,651
Federal income tax recoverable and interest thereon		124,968		124,968
Guaranty fund receivable on deposit	4,010			4,010
Life premiums and annuity considerations deferred and uncollected		166,327		166,327
Investment income due and accrued		661,638		661,638
Other assets nonadmitted:				
Agents' balances	(5,282)		(5,282)	
Bills receivable	556		556	
Furniture and equipment	11,296		11,296	
Write-ins for nonadmitted assets:				
Prepaid insurance	6,526		6,526	
Agents credit balances	25,204		25,204	
Write-ins for other than invested assets:				
Accounts receivable--investments	<u>42,934</u>	<u>          </u>	<u>          </u>	<u>42,934</u>
Total Assets	<u>\$47,887,019</u>	<u>\$912,202</u>	<u>\$38,300</u>	<u>\$48,760,921</u>

**NGL American Life Insurance Company**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2000**

Aggregate reserve for life policies and contracts	\$33,220,309
Policy and contract claims:	
Life	128,176
Policyholders' dividend and coupon accumulations	187,681
Provision for policyholders' dividends and coupons payable in following calendar year:	
Apportioned for payment to December 31, 2001	20,000
Premiums and annuity considerations received in advance	57,042
Liability for premium and other deposit funds:	
Policyholder premiums	1,606
Policy and contract liabilities not included elsewhere:	
Interest maintenance reserve	61,114
Commissions to agents due or accrued	10,384
General expenses due or accrued	14,935
Taxes, licenses, and fees due or accrued, excluding federal income taxes	24,581
Unearned investment income	103
Amounts held for agents' account, including agents' credit balances	25,204
Remittances and items not allocated	69,351
Miscellaneous liabilities:	
Asset valuation reserve	79,719
Payable to parent, subsidiaries and affiliates	122,052
Write-ins for liabilities:	
Miscellaneous clearing accounts	<u>71</u>
Total Liabilities	34,022,328
Common capital stock	8,284,670
Gross paid in and contributed surplus	8,641,498
Write-ins for special surplus funds:	
AVR maximum	236,136
Unassigned funds (surplus)	<u>(2,423,712)</u>
Surplus	<u>14,738,592</u>
Total Liabilities, Surplus, and Other Funds	<u>\$48,760,921</u>

**NGL American Life Insurance Company**  
**Summary of Operations**  
**For the Year 2000**

Premiums and annuity considerations	\$12,056,637
Considerations for supplementary contracts without life contingencies and dividend accumulations	8,697
Net investment income	2,944,731
Amortization of interest maintenance reserve	2,971
Commissions and expense allowances on reinsurance ceded	9,354
Reserve adjustments on reinsurance ceded	
Write-ins for miscellaneous income:	
Miscellaneous income	<u>28,347</u>
Total income items	15,050,736
Death benefits	4,568,986
Annuity benefits	352,721
Disability benefits and benefits under accident and health policies	9,642
Surrender benefits and other funds withdrawals	329,070
Interest on policy or contract funds	4,000
Payments on supplementary contracts without life contingencies and of dividend accumulations	40,948
Increase in aggregate reserve for life and accident and health policies	7,520,014
Increase in reserve for supplementary contracts without life contingencies and for dividend and coupon accumulations	<u>(21,901)</u>
Subtotal	12,803,479
Commissions on premiums, annuity considerations, and deposit type funds	995,688
Commissions and expense allowances on reinsurance assumed	
General insurance expenses	1,303,070
Insurance taxes, licenses, and fees excluding federal income taxes	245,419
Increase in loading on and cost of collection in excess of loading on deferred and uncollected premiums	(1,349)
Write-in for deductions:	
Miscellaneous expense	41,755
Regulatory fees and penalties	<u>581</u>
Total deductions	<u>15,388,643</u>
Net gain from operations before dividends to policyholders and taxes	(337,906)
Dividends to policyholders	<u>22,252</u>
Net gain from operations after dividends to policyholders and before federal income taxes	(360,159)
Federal income taxes incurred (excluding tax on capital gains)	<u>(194,234)</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	(165,925)
Net realized capital gains or (losses) less capital gains tax and amount transferred to the IMR	<u>182,373</u>
Net income	<u>\$16,449</u>

**NGL American Life Insurance Company**  
**Cash Flow**  
**As of December 31, 2000**

Premiums and annuity considerations	\$12,463,919	
Considerations for supplementary contracts without life contingencies and dividend accumulations	9,697	
Net investment income	2,872,682	
Commissions and expense allowances on reinsurance ceded	1,338	
Write-ins for miscellaneous income:		
Miscellaneous income	<u>28,347</u>	
Total		\$15,374,983
Death benefits	4,603,735	
Annuity benefits	354,221	
Surrender benefits and other fund withdrawals	329,070	
Interest on policy or contract funds	4,000	
Payments on supplementary contracts without life contingencies and of dividend accumulations	<u>40,948</u>	
Subtotal	5,331,974	
Commissions on premiums, annuity considerations, and deposit type funds	997,957	
Commissions and expense allowances on reinsurance assumed		
General insurance expenses	1,294,746	
Insurance taxes, licenses and fees, excluding federal income taxes	213,381	
Write-ins for deductions:		
Miscellaneous losses	42,336	
Dividends paid to policyholders	27,252	
Federal income taxes (excluding tax on capital gains)	<u>300,734</u>	
Total deductions		<u>8,208,380</u>
Net cash from operations		\$7,166,603
Proceeds from investments sold, matured, or repaid:		
Bonds	3,084,280	
Stocks	770,280	
Mortgage loans	<u>8,714</u>	
Total investment proceeds	3,863,274	
Net tax on capital gains	<u>83,740</u>	
Total		3,779,534
Cost of investments acquired (long-term only):		
Bonds	9,444,173	
Stocks	1,228,164	
Other invested assets	<u>238,958</u>	
Total investments acquired		10,911,295
Net decrease in policy loans and premium notes		<u>(26,580)</u>
Net cash from investments		(7,105,181)
Cash provided from financing and miscellaneous sources:		
Other cash provided	<u>273,070</u>	
Total		273,070
Cash applied for financing and miscellaneous uses:		

Other applications	<u>143,543</u>	
Total		<u>143,543</u>
Net cash from financing and miscellaneous sources		<u>129,527</u>
Net change in cash and short-term investments		190,949
<b>Reconciliation</b>		
Cash and short-term investments, December 31, 1999		<u>2,515,361</u>
Cash and short-term investments, December 31, 2000		<u>\$2,706,310</u>

**NGL American Life Insurance Company  
Compulsory and Security Surplus Calculation  
December 31, 2000**

Assets		\$48,760,921	
Less liabilities		<u>34,022,328</u>	
Adjusted surplus			\$14,738,593
Annual premium:			
Individual life and health	11,694,923		
Factor	<u>15%</u>		
Total		\$1,754,238	
Greater of 7.5% of consideration or 2% of reserves for annuities and deposit administration funds		<u>56,292</u>	
Compulsory surplus (subject to a \$2,000,000 minimum)			<u>2,000,000</u>
Compulsory surplus excess or (deficit)			<u>\$12,738,593</u>
Adjusted surplus			<u>\$14,738,593</u>
Security surplus:			
(140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million with a minimum of 110%)			<u>2,800,000</u>
Security surplus excess or (deficit)			<u>\$11,938,593</u>



**NGL American Life Insurance Company  
Reconciliation and Analysis of Surplus  
For the Four-Year Period Ending December 31, 2000**

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
Surplus, beginning of year	\$4,097,953	\$10,192,894	\$10,349,463	\$10,601,480
Net income	(391,772)	(372,968)	(275,959)	16,449
Change in net unrealized capital gains or (losses)	12,453	135,865	148,148	(373,503)
Change in nonadmitted assets and related items	(16,451)	10,004	(21,008)	(10,804)
Change in asset valuation reserve	(9,289)	(116,332)	(99,164)	186,811
Capital changes:				
Paid in	3,650,000	250,000	250,000	
Surplus adjustment:				
Paid in	2,850,000	250,000	250,000	
Surplus derived from merger				4,318,163
Surplus, end of year	<u>\$10,192,894</u>	<u>\$10,349,463</u>	<u>\$10,601,480</u>	<u>\$14,738,596</u>

The 2000 surplus change derived from merger represents the net surplus increase from the 2000 merger of Allnation Life Insurance Company into NGLA. In 2000 the company correctly reported the merger on an equity basis in the year of merger and restated its equity accounts for prior-years. The above analysis of surplus data reflects non-restated pre-merger surplus data for 1997, 1998, and 1999.

**NGL American Life Insurance Company  
Insurance Regulatory Information System  
For the Four-Year Period Ending December 31, 2000**

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Exceptional ratios are denoted with asterisks.

A discussion of the exceptional ratios may be found after the IRIS ratios.

<b>Ratio</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
#1 Net change in capital & surplus	(10)%*	3%	(2)%	(1)%
#1A Gross change capital & surplus	149%*	2%	2%	(1)
#2 Net income to total income	-7%*	(4)%*	(2)%*	0%*
#4 Adequacy of investment income	549%	293%	220%	207%
#5 Non-admitted to admitted assets	(7)%	0%	0%	0%
#6 Total real estate & mortgage loans to cash & invested assets	0%	0%	1%	1%
#7 Total affl investments to capital & surplus	0%	0%	2%	0%
#8 Surplus relief	0%	0%	0%	0%
#9 Change in premium	0%	57%*	18%	1%
#10 Change in product mix	999%*	0.3%	0%	0.6%
#11 Change in asset mix	1.1%	0.2%	2%	0.3%
#12 Change in reserving ratio	92%*	(11)%	(5)%	(7)%

The unusual IRIS ratio results for ratio numbers 1, 1A, 2, 10, and 12 in 1997, and 9 in 1998, are due to the company's resumption of business operations following the acquisition of the

company by NGLIC. During 1997 the company received a \$6.5 million surplus contribution from its parent.

The unusual IRIS ratio results for ratio number 2 in 1998, 1999, and 2000 were due to the company's resumption of writing new policies during the period, and to losses related to policy acquisition costs. The company's corporate planning anticipated small net losses annually during the initial years of business resumption.

### Growth of NGL American Life Insurance Company

<b>Year</b>	<b>Admitted Assets</b>	<b>Liabilities</b>	<b>Surplus</b>
1997	26,432,384	12,786,546	10,192,894
1998	34,421,826	20,379,945	10,349,463
1999	42,055,107	27,135,467	10,601,480
2000	48,760,921	48,760,921	14,738,596

### Life Insurance In Force (in thousands)

<b>Year</b>	<b>Gross Direct And Assumed</b>	<b>Ceded</b>	<b>Net</b>
1997	\$ 5,556	\$ 0	\$ 5,556
1998	13,453	0	13,453
1999	43,666	3,850	39,816
2000	208,605	83,461	125,144

### Accident and Health

<b>Year</b>	<b>Net Premiums Earned</b>	<b>Net Losses Incurred</b>	<b>Commissions Incurred</b>	<b>Other Expenses Incurred</b>	<b>Combined Loss and Expense Ratio</b>
1997	\$ 0	\$0	\$0	\$ 0	124.9%
1998	0	0	0	0	98.6%
1999	750	0	0	651	86.8%
2000	1,070	0	0	1,372	128.2%

The above data reflect the resumption of business in the company and the company's entry into the preneed and final expense markets. The company experienced operating losses during each of the past four years, primarily due to acquisition costs for the sale of new business. Company management forecasts that the company will have profitable operating results going forward following the proposed October 1, 2001 merger of Milwaukee Life Insurance Company into NGLA. Management forecasts that the losses incurred due to expansion of NGLA's preneed business should be offset by the profitability of MLIC's existing in-force business, and provide the company with a basis for future profitable operating results.

**Reconciliation of Surplus per Examination**

The examination determined that there were no material exceptions to the account balances reported by the company in its 2000 statutory annual statement, and the examination made no reclassifications of account balances or adjustments to surplus. As of December 31, 2000, the company had surplus of \$14,738,596.

## **VII. SUMMARY OF EXAMINATION RESULTS**

### **Compliance with Prior Examination Report Recommendations**

The previous examination did not make any specific findings of exception or recommendations for company action.

### **Summary of Current Examination Results**

#### **Custody of Assets**

The company is party to a custodial agreement with a bank for which the custodial agreement language is not adequate. The custodial agreement contains conflicting provisions regarding the custodian's obligation to indemnify the company for special, indirect, consequential or speculative damages, with respect to indemnification of the company for the value of any loss of rights or privileges resulting from the custodian's loss of company securities. It is recommended that the company correct the conflicting language and ensure that all of its custodial agreements require the custodian to indemnify the insurer for any lost securities, in conformity to the suggested indemnification language provided in Part 1, Section IV(H) of the NAIC Examiner's Handbook.

#### **Bonds**

Examination review of the data reported for bond assets in the company's 2000 statutory annual statement, Schedule D, Part 1 determined that the company incorrectly reported compound interest rates as the effective interest rate data that was reported in Schedule D, Part 1, column 15. The reported data should have been based on nominal effective interest. The error was due to incorrect coding of the cell in the company's Schedule D software package that generated the data reflected in Schedule D, Part 1, column 15.

The examiners verified that the noted exception effected only the interest rate data reported in column 15, and that the reported bond amortizations and bond statement values for the company's bond assets were calculated using nominal effective interest rates and were properly valued in all material respects. The company undertook corrective action during the time of fieldwork for this examination. It is recommended that the company report nominal effective interest rate data in the appropriate column of its statutory annual statement Schedule

D Part 1 reports, in accordance with NAIC Annual Statement Instructions—Life, Accident and Health.

### **Other Invested Assets**

The company's Schedule BA assets included a surplus note asset owned by the company at year-end 2000. The NAIC Securities Valuation Office Valuation of Securities Manual provides that an insurer that owns a capital or surplus debenture that is rated by a securities rating organization must file semi-annually a copy of the most recent rating letter issued by the rating organization. Examination inquiry determined that the company has not made the appropriate filings as required by the NAIC. It is recommended that the company file required ratings documentation for its capital or surplus debenture assets with the NAIC Securities Valuation Office, as provided in Part Twelve of the NAIC Valuation of Securities Manual.

### **Reinsurance Accounting**

Examination review of the company's reinsurance accounts and records identified certain deficiencies in company practices. One year-end recoverable on a 2000 claim was not included in the 2000 annual statement Schedule S recoverable on paid or unpaid losses report or as an amount reported in the company's year-end reinsurance recoverable assets. One of the company's reinsurers denied a company claim for recovery on a 2000 loss because the company had not paid reinsurance premiums due for 2000 and for part of 1999. In May 2001 the company remitted all outstanding prior-period reinsurance premiums due to the reinsurer. It is recommended that the company record reinsurance recoverable on paid loss amounts in its accounts and records on a timely basis, and that recoverable balances be properly reported in Schedule S of the company's statutory financial statements in accordance with NAIC Annual Statement Instructions—Life, Accident and Health. It is further recommended that the company remit payment for premiums due and payable to reinsurers on a timely basis, in accordance with reinsurance treaty provisions for payment of premiums.

## **VIII. CONCLUSION**

NGL American Life Insurance Company was originally organized in 1982 as a Nebraska domiciled insurer, under the name Guarantee American Insurance Company (GAIC). GLAC changed its name to NGL American Life Insurance Company on December 12, 1996, in anticipation of its sale to NGLIC. The NGLIC acquisition all of the outstanding capital stock of NGLA closed effective January 1, 1997, and NGLA redomiciled to Wisconsin effective January 10, 1997. Effective March 31, 2000, Allnation Life Insurance Company (ALIC), then a subsidiary of NGLIC, was merged into NGLA. Prior to the merger NGLIC acquired ALIC from Blue Cross/Blue Shield of Delaware. The company expects the merger of Milwaukee Life Insurance Company into NGLA to be effective October 1, 2001.

NGLA is licensed in 30 states and the District of Columbia. NGLA's primary products are single premium insurance policies and annuities that provide funding for funeral costs.

The examination made four recommendations, and did not make any reclassifications or adjustments of account balances or surplus reported by the company in its year-end 2000 statutory financial statement. The examination determined that, as of December 31, 2000, the company had total admitted assets of \$48,760,921, total liabilities of \$34,022,328, and total capital and surplus of \$14,738,596.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 27 **Custody of Assets**—It is recommended that the company correct the conflicting language and ensure that all of its custodial agreements require the custodian to indemnify the insurer for any lost securities, in conformity to the suggested indemnification language provided in Part 1, Section IV(H) of the NAIC Examiner's Handbook.
2. Page 27 **Bonds**— It is recommended that the company report nominal effective interest rate date in the appropriate column of its statutory annual statement Schedule D Part 1 reports, in accordance with NAIC Annual Statement Instructions—Life, Accident and Health.
3. Page 28 **Other Invested Assets**— It is recommended that the company file required ratings documentation for its capital or surplus debenture assets with the NAIC Securities Valuation Office, as provided in Part Twelve of the NAIC Valuation of Securities Manual.
4. Page 28 **Reinsurance Accounting**—It is recommended that the company record reinsurance recoverable on paid loss amounts in its accounts and records on a timely basis, and that recoverable balances be properly reported in Schedule S of the company's statutory financial statements in accordance with NAIC Annual Statement Instructions—Life, Accident and Health. It is further recommended that the company remit payment for premiums due and payable to reinsurers on a timely basis, in accordance with reinsurance treaty provisions for payment of premiums.



## **X. ACKNOWLEDGMENT**

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Richard Harlow Anderson	Insurance Examiner
Andrew Fell	Insurance Examiner
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Respectfully submitted,

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